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Forbes

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AS IT SOWS, SO SHALL IT REAP

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Forbes

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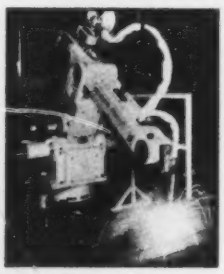

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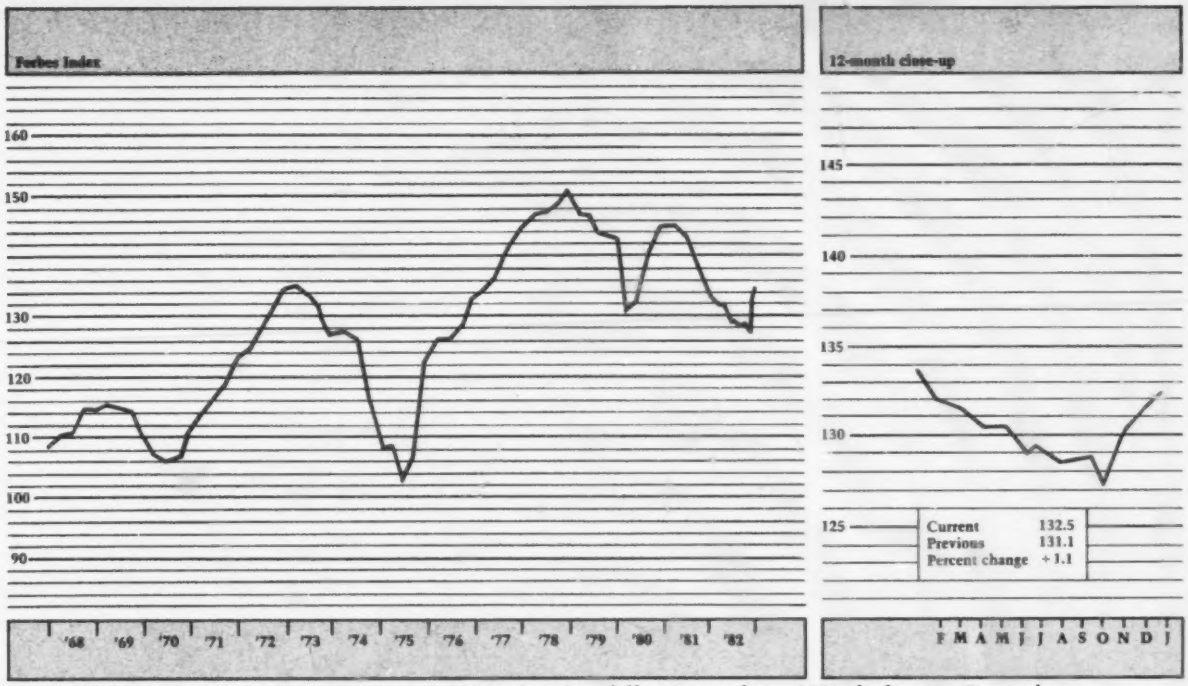
The Forbes Index



The beat goes on. The Forbes Index has posted its fourth straight gain, rising 1.1% in January. That impressive string makes a convincing case that the recovery has already begun.

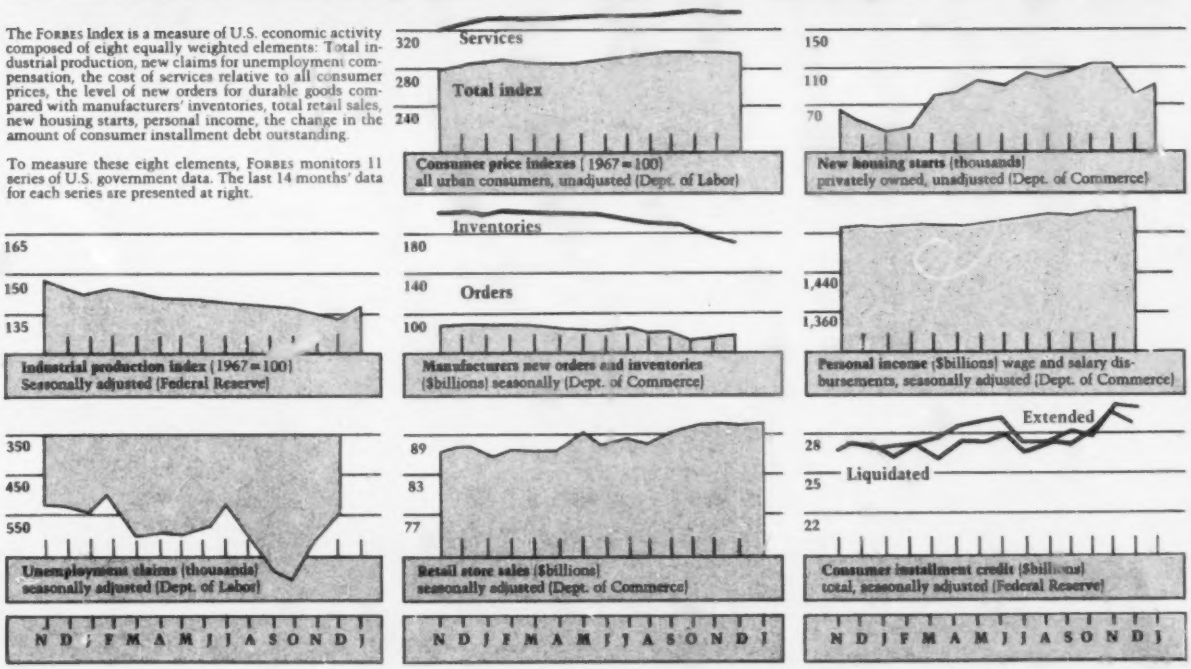
The most persuasive evidence came in industrial production. It increased by 0.9%, its first gain in over a year. Housing also provided an upward push. New housing rose 13.8% during the first month of the year, following a sharp 25% decline in December.

Consumers are not yet ready to go back into debt. In fact, net consumer credit outstanding was $2.2 billion in the latest reporting period. That figure is somewhat smaller than the $2.5 billion net credit outstanding during the previous month. But consumer confidence is returning, however slowly: Retail store sales inched up 0.1% in January, following a 1.1% decline in December.

The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.

To measure these eight elements, FORBES monitors 11 series of U.S. government data. The last 14 months' data for each series are presented at right.



Forbes

Coming your way this spring: the $26 billion tax cut you never heard about. The Treasury, it seems, didn't bother to tell you that you probably were overwithheld all last year.

Surprise!

By Barbara Ettorre

IT'S TAX TIME again, but the usual whining and wailing among working Americans definitely is going to be muted this spring. The reason: Final Apr. 15 tax bills will be lower than most taxpayers expect, while refund checks will be more generous. That, Goldman, Sachs & Co. calculates, will put between $22.5 billion and $26 billion extra in consumers' pockets in March, April and May.

The windfall comes about through the convergence of some fundamental economic trends and technical factors in tax collection, but it's safe to say that the biggest single chunk of that money—$9 billion to $11.5 billion—will come from tax savings on IRA accounts. Goldman, Sachs estimated that $30 billion went into IRAs last year, and the accounts earned some $3 billion in dividends and interest. The "earning curve," according to Goldman, Sachs, is at work here. Most taxpayers have failed to increase the exemptions in order to lower withholding taxes on their salaries, partly out of complacency—withholding rates were, after all, lowered last year—and partly out of misguided fear that other tax law changes would offset IRA tax savings.

For various other reasons, Goldman, Sachs says, last July's withholding tax cut actually came to only 7%, lowering the amount of personal taxes paid in 1982 by only $19 billion to $20 billion, some $6 billion to $7 billion less than the full 10% tax cut legislated by Congress. So taxpayers will pick up that $6 billion to $7 billion this spring in the form of smaller final bills or bigger refunds.

Another $6 billion in refunds, of course, results from the late recession. Workers unemployed for part of the year were overwithheld in the pay they did earn because withholding tax tables assume full-year employment.

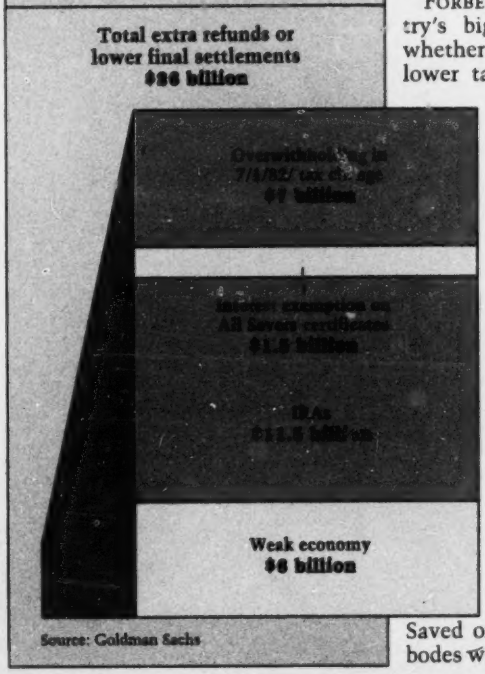
Finally, consider the $6.5 billion earned on tax-free All Savers certificates. Invested in money market instruments, the $6.5 billion would have produced about $2.3 billion in taxes. Although some taxpayers did, in fact, lower their quarterly 1982 tax installments because of the tax exemption on All Savers certificates, there remains some $1.5 billion in savings that won't be realized until this spring.

FORBES asked H&R Block, the country's biggest tax preparation firm, whether its customers were paying lower taxes than they expected for 1982. Many Block offices, in a spot check, said yes.

What it all amounts to is this: The "surprise" tax cut this spring actually exceeds last July's unsurprising $19 billion to $20 billion tax reduction. Because the $22.5 billion to $26 billion savings this year will be concentrated in a three-month period, Goldman, Sachs believes it will stimulate the economy far more noticeably than did last year's reduction. And the surprise reduction will more than offset the effect of the 10% withholding to be imposed next July on interest and dividend payments and the increase on gasoline taxes that takes effect Apr. 1. Saved or spent, the shot in the arm bodes well for the recovery. ■

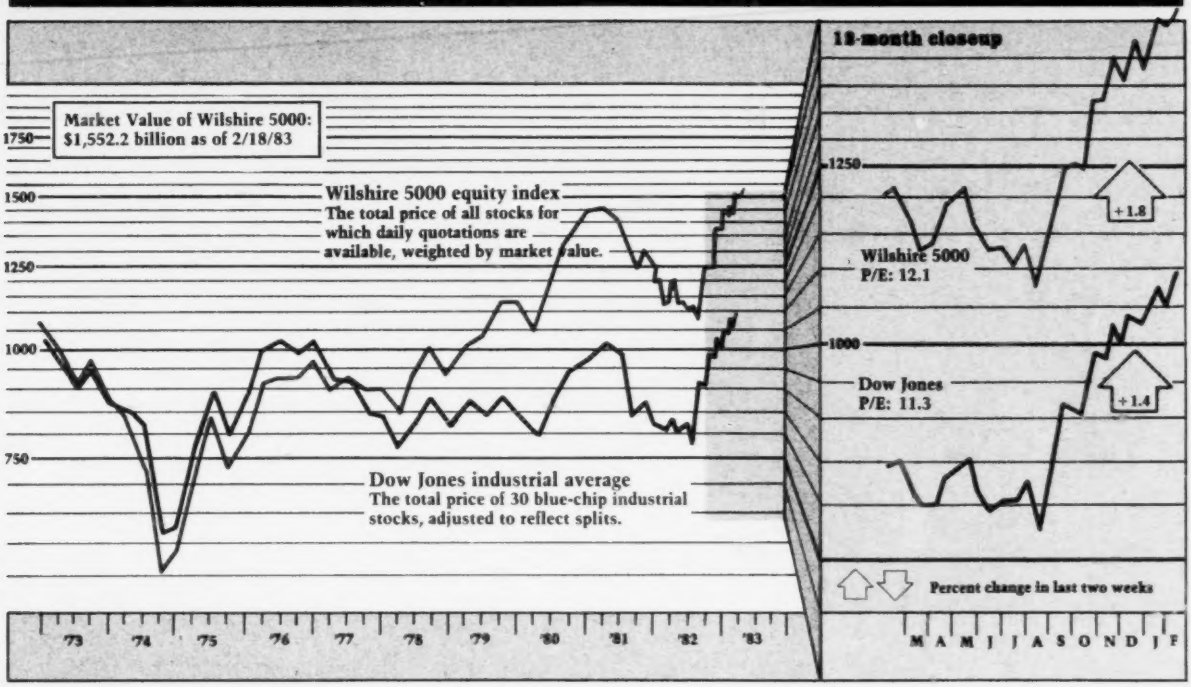
The windfall

Tax overwithholding on 1982 personal incomes had to do with the recession and changes in the tax law itself. Here's where the $26 billion windfall comes from.



Source: Goldman Sachs

The Forbes/Wilshire 5000 Review



Third wind. Well into February, this seemingly endless bull market continued, bolstered by further slight declines in interest rates. The talk is of corrections and a coming shakeout before the indexes continue their steady uphill trek. But in mid-February, as investors braced for profit-taking, the market climbed to new highs. The Dow Jones industrial average broke its 1092 prior alltime closing high, and the NASDAQ and Amex indexes outpaced the Dow. Signs of a mature rally continue, with accelerating action in the less-picked-over markets. Even energy issues, namely oil, picked up strength despite constant reports of declining oil prices. Technology, everyone's favorite in the last few months, continued to gain, but the increases were slower.

One of the telltale signs of a tiring bull in prior market cycles is becoming even more pronounced in this one: The 52-week averages for both the Amex and NASDAQ markets have now pulled well ahead of the Dow and the other broader capital-weighted indexes—a difference that showed up in January for the first time since this 1982-83 bull market began in August, and which is now accelerating.

Close-up On The Equity Markets

Performance of six leading indexes

Percent change	Wilshire 5000	Forbes 500[1]	Dow Jones industrials	NYSE Composite	Amex Market Value Index	NASDAQ Composite
in last 4 weeks	3.4	3.4	3.8	2.7	5.0	7.1
in last 52 weeks	31.9	29.9	32.6	30.6	42.4	44.6

Stock performance based on five key investor yardsticks

Percent change	Volatility[2]		P/E multiple		Dividend yield		Growth profile[3]		Share price	
	high	low	over 25	under 5	over 7.5%	none	high	low	over $40	under $4
in last 4 weeks	9.5	4.3	8.7	10.4	1.9	11.4	9.1	2.9	6.2	10.0
in last 52 weeks	80.0	40.6	57.0	93.5	34.0	92.2	94.6	42.6	37.7	69.9

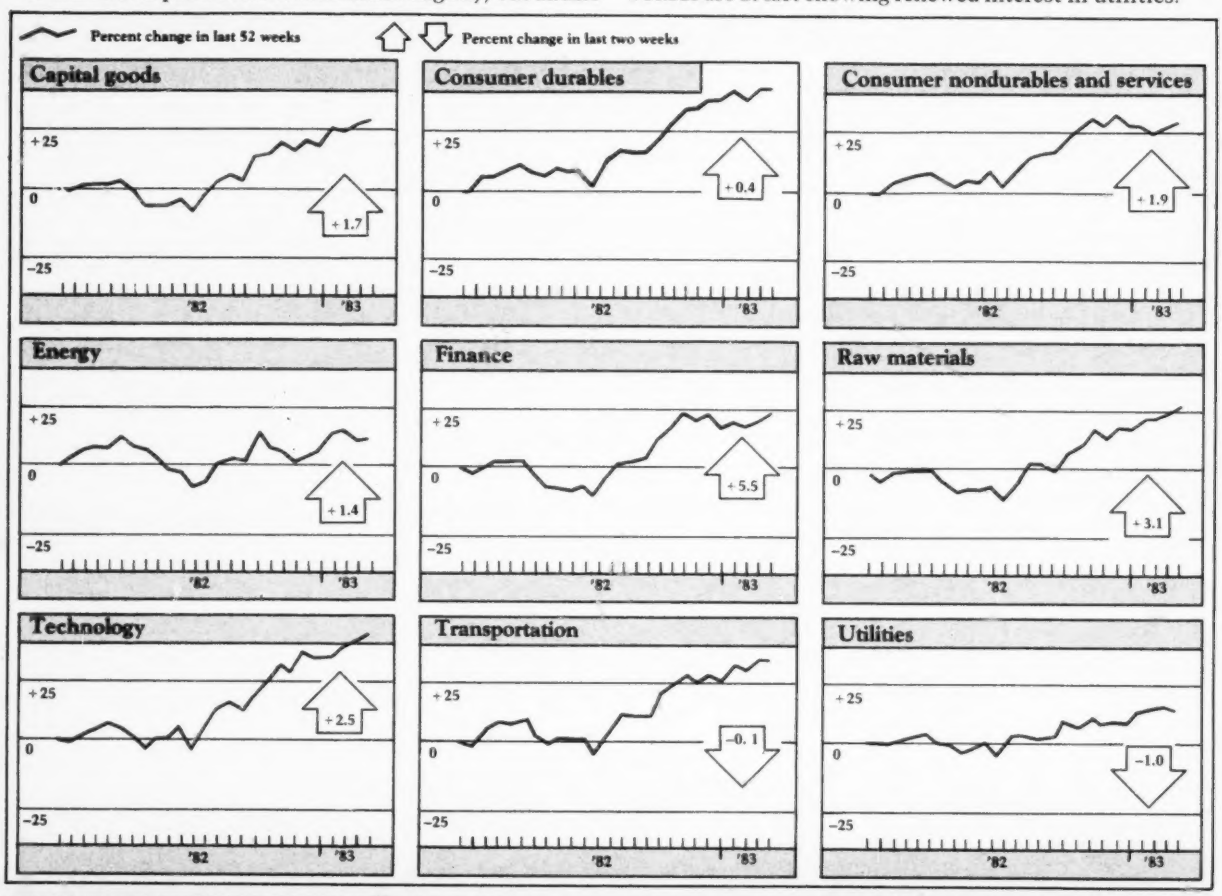
[1]Based on sales.
[2]A stock's sensitivity to overall market movement. High-volatility issues have wide price fluctuations, low-volatility issues are more stable.
[3]A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 2/18/83. Prepared by Wilshire Associates, Santa Monica, Calif.

Where The Action Is

Interest in interest. Investors shifted their focus back to interest rates as renewed declines beckoned them to financial stocks, particularly brokerage and installment credit. Raw materials also held up well, with steel and heavy materials showing strong gains in the last two-week period. Of less significance, seemingly, was the continuing decline in oil prices. Oil stocks rallied slightly, but airline stocks, which were flying high only a month earlier on the prospect of lowered fuel costs, dipped downward again.

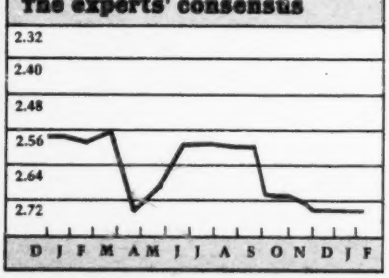
Utilities have been the major underperformers this year, even though they were one of the few areas that h ld up well a year ago amid high interest rates and falling markets. Lately, however, the institutional analysts monitored by FORBES are at last showing renewed interest in utilities.



What The Analysts Think

Bracing for correction? Analysts turned slightly more bearish in late February, with only utilities—which do well in weak markets—and raw materials stocks getting better marks than two weeks earlier. Both sectors, however, may benefit from lower oil prices. Enthusiasm for technology issues, meanwhile, is waning slightly.

The experts' consensus



Rank	Sector	Current opinion	Rank 2 weeks ago	Rank 4 weeks ago
1	Energy	2.62	1	2
2	Utilities	2.64	4	4
3	Technology	2.67	2	1
4	Capital goods	2.73	3	3
5	Raw materials	2.79	7	7
6	Transportation	2.81	6	5
7	Finance	2.81	5	6
8	Consumer nondurables	2.88	8	8
9	Consumer durables	2.92	9	9

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 2/18/83. Prepared by Wilshire Associates, Santa Monica, Calif.